

104TH CONGRESS
2D SESSION

H. R. 4050

To amend the Internal Revenue Code of 1986 to replace the current individual and corporate income taxes, and the Social Security and Medicare taxes, with a value added tax.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 11, 1996

Mr. GIBBONS introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to replace the current individual and corporate income taxes, and the Social Security and Medicare taxes, with a value added tax.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE.**

4 (a) IN GENERAL.—This Act may be cited as the
5 “Revenue Restructuring Act of 1996”.

6 (b) FUNDAMENTAL PRINCIPLES FOR TAX RESTRUC-
7 TURING.—The provisions of this Act are a substitute for

1 the current Federal income taxes and Social Security and
2 Medicare employment taxes and are designed to meet the
3 following principles which should govern all proposals for
4 fundamental tax reform:

5 (1) REVENUE NEUTRALITY.—The debate about
6 the best method by which the Government raises
7 revenue should not be confused with the issue of how
8 much revenue the Government should raise.

9 (2) FAIRNESS.—Equitable distribution of the
10 tax burden is of paramount importance. Tax reform
11 should not be used as an opportunity to alter the
12 current distribution of the burden of Federal taxes.

13 (3) SIMPLICITY.—Much of the unhappiness
14 with the current Federal tax system arises from its
15 perceived complexity. Tax reform should focus on
16 the creation of a truly simpler system, thereby avoid-
17 ing the ill will and skepticism generated by the cur-
18 rent Federal tax system.

19 (4) ECONOMIC EFFICIENCY.—A good revenue
20 system should minimize interference in economic
21 markets. It should result in the least amount of dis-
22 tortion and bias, should encourage economic growth,
23 and should promote the vigor and competitiveness of
24 American companies.

1 (5) INTERNATIONAL COMPETITIVENESS.—The
2 current income tax is an impediment to maximum
3 competitiveness of American companies in inter-
4 national markets. Any reform proposal should be
5 border-adjustable and promote the competitiveness
6 of American companies.

7 (c) RESPONSIBILITIES OF DEPARTMENT OF TREAS-
8 URY.—The rate of the value added tax and the burden
9 adjustment provisions contained in this Act are tentative
10 and intended to be both revenue neutral and
11 distributionally neutral. The Secretary of the Treasury
12 shall, within 90 days after the date of the enactment of
13 this Act, submit to the Committee on Ways and Means
14 of the House of Representatives such adjustments to—

15 (1) the rate of the tax imposed by title II of
16 this Act, and

17 (2) the burden adjustments established by title
18 III of this Act,

19 to ensure that the provisions of this Act do not result in
20 a significant change in the amount of Federal revenues
21 or in the distribution of the Federal tax burden.

22 (d) AMENDMENT OF 1986 CODE.—Except as other-
23 wise expressly provided, whenever in this Act an amend-
24 ment or repeal is expressed in terms of an amendment
25 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (e) TABLE OF CONTENTS.—

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 TAXES AND SOCIAL SECURITY AND MEDICARE TAXES

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TITLE II—VALUE ADDED TAX

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“Subtitle L—Value Added Tax

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“Sec. 1601. Rebate to low-income individuals.

“Sec. 1602. Advance payment of rebate.

“SUBCHAPTER B—BURDEN ASSESSMENT ON HIGH-INCOME INDIVIDUALS

“Sec. 1611. Assessment on high-income individuals.

“Sec. 1612. Inclusion of undistributed income of certain corporations.

1 **TITLE I—REPEAL OF INDIVID-** 2 **UAL AND CORPORATE IN-** 3 **COME TAXES AND SOCIAL SE-** 4 **CURITY AND MEDICARE** 5 **TAXES**

6 **SEC. 101. REPEAL OF INDIVIDUAL AND CORPORATE IN-** 7 **COME TAXES.**

8 (a) IN GENERAL.—Subchapter A of chapter 1 (relat-
9 ing to normal taxes and surtaxes) is hereby repealed.

10 (b) EFFECTIVE DATE.—The amendment made by
11 subsection (a) shall apply to taxable years beginning after
12 December 31, 1997.

13 **SEC. 102. REPEAL OF SOCIAL SECURITY AND MEDICARE** 14 **TAXES.**

15 (a) IN GENERAL.—

1 (1) Chapter 21 (relating to Federal Insurance
2 Contributions Act) is hereby repealed.

3 (2) Chapter 2 (relating to self-employment tax)
4 is hereby repealed.

5 (b) REPEAL OF TIER 1 RAILROAD RETIREMENT
6 TAXES.—

7 (1) Subsection (a) of section 3201 (relating to
8 tax on employees) is hereby repealed.

9 (2) Subsection (a) of section 3211 (relating to
10 tax on employee representatives) is amended by
11 striking paragraph (1).

12 (3) Section 3221 (relating to tax on employers)
13 is amended by striking subsections (a) and (e).

14 (4) Paragraph (2) of section 3231(e) is amend-
15 ed—

16 (A) by striking clause (iii) of subparagraph
17 (A), and

18 (B) by striking subparagraph (B) and in-
19 serting the following new subparagraph:

20 “(B) APPLICABLE BASE.—The term ‘appli-
21 cable base’ means for any calendar year the
22 contribution and benefit base determined under
23 section 230 of the Social Security Act for such
24 calendar year; except that—

25 “(i) for purposes of this chapter, and

1 “(ii) computing average monthly com-
 2 pensation under section 3(j) of the Rail-
 3 road Retirement Act of 1974 (except with
 4 respect to annuity amounts determined
 5 under subsection (a) or (f)(3) of section 3
 6 of such Act),

7 clause (2) of the first sentence, and the second
 8 sentence, of subsection (c) of section 230 of the
 9 Social Security Act shall be disregarded.”

10 (4) Subsection (e) of section 3231 is amended
 11 by striking paragraph (4).

12 (c) EFFECTIVE DATE.—

13 (1) IN GENERAL.—The amendments made by
 14 this section (other than subsection (a)(2)) shall
 15 apply to remuneration paid after December 31,
 16 1997.

17 (2) SELF-EMPLOYMENT TAX.—The amendment
 18 made by subsection (a)(2) shall apply to taxable
 19 years beginning after December 31, 1997.

20 **TITLE II—VALUE ADDED TAX**

21 **SEC. 201. IMPOSITION OF VALUE ADDED TAX.**

22 The Internal Revenue Code of 1986 is amended by
 23 adding at the end the following new subtitle:

24 **“Subtitle L—Value Added Tax**

“CHAPTER 100. Value added tax.

1 **“CHAPTER 100—VALUE ADDED TAX**

“SUBCHAPTER A. Imposition of tax.
 “SUBCHAPTER B. Computation of tax.
 “SUBCHAPTER C. General rules.
 “SUBCHAPTER D. Special rules.
 “SUBCHAPTER E. Small business exemption.
 “SUBCHAPTER F. Definitions.
 “SUBCHAPTER G. Administration.

2 **“Subchapter A—Imposition of Tax**

“Sec. 10001. Tax imposed.

3 **“SEC. 10001. TAX IMPOSED.**

4 “In the case of any person engaged in any business
 5 activity, there is hereby imposed for each taxable period
 6 a tax in an amount equal to 20 percent of the taxable
 7 value added.

8 **“Subchapter B—Computation of Tax**

“Sec. 10011. Taxable value added.
 “Sec. 10012. Business activity.
 “Sec. 10013. Gross receipts from business activities.
 “Sec. 10014. Business purchases.
 “Sec. 10015. Exemption for certain nontaxable exchanges.

9 **“SEC. 10011. TAXABLE VALUE ADDED.**

10 “(a) IN GENERAL.—For purposes of this chapter, the
 11 term ‘taxable value added’ means the amount by which—

12 “(1) the gross receipts of any person from busi-
 13 ness activities for a taxable period, exceed

14 “(2) the business purchases of such person for
 15 the taxable period.

16 “(b) REFUND IF BUSINESS PURCHASES EXCEED
 17 GROSS RECEIPTS.—If the business purchases described in
 18 subsection (a)(2) exceeds the gross receipts described in

1 subsection (a)(1) for any taxable period, an amount equal
2 to 20 percent of such excess shall be treated as an over-
3 payment of the tax imposed by section 10001 for such pe-
4 riod.

5 **“SEC. 10012. BUSINESS ACTIVITY.**

6 “(a) IN GENERAL.—For purposes of this chapter, the
7 term ‘business activity’ means—

8 “(1) any of the following transactions by any
9 person in connection with a business—

10 “(A) any sale of property in the United
11 States,

12 “(B) any grant of a right to use property
13 in the United States, and

14 “(C) the performance of services in the
15 United States, and

16 “(2) the export of property or services from the
17 United States in connection with a business.

18 For purposes of the preceding sentence, the term ‘prop-
19 erty’ does not include any financial instrument (as defined
20 in section 10051) or money.

21 “(b) EXCEPTION FOR SERVICES PERFORMED AS EM-
22 PLOYEE.—For purposes of this chapter, the term ‘busi-
23 ness activity’ does not include the performance of services
24 by an employee for the employee’s employer.

1 **“SEC. 10013. GROSS RECEIPTS FROM BUSINESS ACTIVITIES.**

2 “(a) IN GENERAL.—For purposes of this chapter, the
3 term ‘gross receipts’ means all receipts from a business
4 activity.

5 “(b) EXPORTS.—

6 “(1) GENERAL RULE.—For purposes of this
7 chapter, the term ‘gross receipts’ does not include
8 amounts received by the exporter for property or
9 services exported from the United States for use or
10 consumption outside the United States.

11 “(2) EXPORT THROUGH NONBUSINESS EN-
12 TITY.—For purposes of paragraph (1), if property or
13 services are sold to a governmental entity or exempt
14 organization for export and are exported other than
15 in a business activity of such entity or organization,
16 then the seller of such property or services is deemed
17 to be the exporter thereof.

18 “(3) INTERNATIONAL TRANSPORTATION.—

**“For treatment of international transportation
services, see section 10031.**

19 “(c) EXCHANGES.—For purposes of this chapter, the
20 amount treated as gross receipts from an exchange is the
21 amount of money plus the fair market value of other con-
22 sideration received in the exchange.

23 “(d) CERTAIN INSURANCE PROCEEDS.—For pur-
24 poses of this chapter, the term ‘gross receipts’ includes

1 the proceeds of property and casualty insurance for losses
2 in connection with a business activity.

3 “(e) TAXES.—For purposes of this chapter, the term
4 ‘gross receipts’ shall not include—

5 “(1) any separately stated excise tax, sales tax,
6 customs duty, or other levy imposed by a Federal,
7 State, or local government which is imposed on a
8 business transaction and which is received or col-
9 lected by the seller in connection with the sale, and

10 “(2) any tax imposed by chapter 31, 32, 33, 34,
11 35, 36, 39, 51, 52, or 53.

12 “(f) TRANSFERS TO RELATED PERSONS.—

13 “(1) IN GENERAL.—For purposes of this chap-
14 ter, the amount treated as the gross receipts from
15 any transaction described in section 10012(a)(1) be-
16 tween related persons shall be the fair market value
17 of the property sold, right granted, or services per-
18 formed (as the case may be).

19 “(2) RELATED PERSON.—For purposes of this
20 subsection, the term ‘related person’ means—

21 “(A) in the case of an employment rela-
22 tionship, an employer and employee,

23 “(B) in the case of any entity, an owner of
24 the entity,

1 “(C) any person specified in regulations,
2 and

3 “(D) any member of the family (within the
4 meaning of section 267(c)(4)) of any individual
5 described in subparagraph (A), (B), or (C).

6 “(3) OWNER.—For purposes of paragraph (2),
7 the term ‘owner’ means—

8 “(A) the proprietor of a sole proprietor-
9 ship, and

10 “(B) any holder of a beneficial interest in
11 a corporation, partnership, trust, or other en-
12 tity.

13 **“SEC. 10014. BUSINESS PURCHASES.**

14 “(a) IN GENERAL.—For purposes of this chapter, the
15 term ‘business purchase’ means any amount paid or in-
16 curred to acquire property, a right to use property, or
17 services for use or sale in a business activity. For purposes
18 of the preceding sentence, the term ‘property’ does not in-
19 clude any financial instrument or money.

20 “(b) EXCEPTIONS.—The term ‘business purchase’
21 does not include—

22 “(1) any amount paid or incurred as current or
23 deferred compensation to employees or for employee
24 benefits,

1 “(2) any payment which is unlawful under Fed-
2 eral, State, or local law, or

3 “(3) except as provided in subsection (d)—

4 “(A) any amount paid or incurred as a
5 premium for insurance other than property and
6 casualty insurance, or

7 “(B) any other implicit intermediation
8 fees.

9 “(c) IMPORTS.—The term ‘business purchase’ does
10 not include—

11 “(1) any amount paid or incurred for the im-
12 port of property or services, and

13 “(2) in the case of imported property, any
14 amounts paid or incurred for the transportation of
15 such property to the United States (if such costs are
16 not included in the amount paid for the property).

17 “(d) FINANCIAL INTERMEDIATION SERVICES.—

18 “(1) IN GENERAL.—For purposes of this chap-
19 ter, business purchases include implicit financial
20 intermediation fees.

21 “(2) IMPLICIT FINANCIAL INTERMEDIATION
22 FEES.—For purposes of paragraph (1), the term
23 ‘implicit financial intermediation fees’ means
24 amounts allocable to the business activity for which
25 a person has received notice under section 10032(d)

1 (relating to implicit financial intermediation fees)
 2 and which have otherwise not been taken into ac-
 3 count.

4 “(3) CROSS REFERENCE.—

For additional treatment of financial intermediation services, see section 10032.

5 “(e) EXCHANGES.—For purposes of this chapter, the
 6 amount treated as paid or incurred for business purchases
 7 in connection with an exchange is the amount of money
 8 plus the fair market value of other consideration trans-
 9 ferred in the exchange.

10 “(f) TAXES.—For purposes of this chapter, the term
 11 ‘business purchase’ does not include any excise tax, sales
 12 tax, customs duty, or other separately stated levy imposed
 13 by a Federal, State, or local government on business pur-
 14 chases.

15 “(g) GAMBLING PAYMENTS.—Except as provided in
 16 subsection (a), in the case of a business activity involving
 17 gambling, lotteries, or other games of chance, business
 18 purchases include amounts paid to winners.

19 **“SEC. 10015. EXEMPTION FOR CERTAIN NONTAXABLE EX-**
 20 **CHANGES.**

21 “(a) GENERAL RULE.—For purposes of this chapter,
 22 gross receipts shall not include gross receipts from an ap-
 23 plicable nontaxable transaction except to the extent attrib-

1 utable to money or other property received in the trans-
 2 action.

3 “(b) APPLICABLE NONTAXABLE TRANSACTIONS.—

4 For purposes of this section, the term ‘applicable non-
 5 taxable transaction’ means any transaction—

6 “(1) to which section 332, 351, 368, or 721 ap-
 7 plies, or

8 “(2) which is specified by the Secretary and
 9 with respect to which gain is not recognized in whole
 10 or in part under chapter 1.

11 **“Subchapter C—General Rules**

“Sec. 10021. Accounting methods.

“Sec. 10022. Governmental entities and exempt organizations.

“Sec. 10023. Post-sale price adjustments and refunds; bad debts.

“Sec. 10024. Source rules.

“Sec. 10025. Conversions.

12 **“SEC. 10021. ACCOUNTING METHODS.**

13 “(a) IN GENERAL.—Except as provided in this sec-
 14 tion, a person subject to tax under this chapter may use
 15 any of the following methods of accounting for purposes
 16 of this chapter:

17 “(1) The cash receipts and disbursements
 18 method.

19 “(2) An accrual method.

20 “(3) Any other method permitted by the Sec-
 21 retary.

22 The Secretary may require a person to modify any method
 23 to clearly reflect gross receipts and business purchases.

1 “(b) CONSISTENCY REQUIREMENT.—All persons
2 which are members of a controlled group of corporations
3 which does not elect to be treated as one person for pur-
4 poses of this chapter under section 10063(a)(2) shall use
5 the same method of accounting for purposes of this chap-
6 ter.

7 “(c) SPECIAL RULES FOR LONG-TERM CON-
8 TRACTS.—

9 “(1) IN GENERAL.—In the case of any sale pur-
10 suant to a long-term contract (as defined in section
11 460(f))—

12 “(A) the seller shall use the percentage of
13 completion method in computing gross receipts
14 from the contract, and

15 “(B) the purchaser shall use the cash re-
16 cepts and disbursements method in computing
17 business purchases from the contract.

18 “(2) REPORTING.—The Secretary may require
19 taxpayers to file statements containing such infor-
20 mation with respect to long-term contracts as the
21 Secretary may prescribe.

22 “(d) INSTALLMENT METHOD PROHIBITED.—Gross
23 receipts from the sale of property shall not be taken into
24 account for purposes of this chapter under the installment
25 method.

1 **“SEC. 10022. GOVERNMENTAL ENTITIES AND EXEMPT OR-**
2 **GANIZATIONS.**

3 “(a) IN GENERAL.—For purposes of this chapter, the
4 transfer of property, the grant of a right to use property,
5 or the furnishing of services by a governmental entity or
6 an exempt organization shall be treated as a business ac-
7 tivity if there is a separately stated charge for such trans-
8 fer, grant, or furnishing.

9 “(b) SPECIAL RULES FOR GOVERNMENTAL ENTI-
10 TIES.—For purposes of this chapter—

11 “(1) IN GENERAL.—The transfer of property,
12 the grant of a right to use property, or furnishing
13 of services by a governmental entity with respect to
14 any of the following activities shall be treated as a
15 business activity whether or not there is a separately
16 stated charge for such transfer or furnishing:

17 “(A) Public utility services.

18 “(B) Mass transit services.

19 “(C) Postal services.

20 “(D) Any activity not involving the exer-
21 cise of any essential governmental function
22 (within the meaning of section 115).

23 “(2) GROSS RECEIPTS.—In the case of a trans-
24 fer of property, grant of a right to use property, or
25 furnishing of services which is treated as a business
26 activity solely by reason of paragraph (1), gross re-

1 cepts shall be determined on the basis of the fair
 2 market value of such property, right, or services.

3 “(c) BUSINESS PURCHASES REDUCED BY SUB-
 4 SIDIES.—

5 “(1) IN GENERAL.—For purposes of this chap-
 6 ter, in the case of a business activity of an exempt
 7 organization or a governmental entity (other than an
 8 activity which is treated as a business activity solely
 9 by reason of subsection (b)(1)), the business pur-
 10 chases for such activity shall be reduced by the
 11 amount of any subsidy provided for that activity.

12 “(2) SUBSIDY.—For purposes of paragraph (1),
 13 the term ‘subsidy’ means the portion of the cost of
 14 the transfer of property, the right to use property,
 15 or the furnishing of services, which is not borne by
 16 amounts charged therefor.

17 “(d) ALLOCATION.—The Secretary shall by regula-
 18 tion provide for the proper allocation of gross receipts and
 19 business purchases between business activities and other
 20 activities.

21 “(e) SELF-CONSUMPTION OF PROPERTY OR SERV-
 22 ICES.—Notwithstanding the provisions of this section, the
 23 Secretary may by regulation provide that property pro-
 24 duced, or services furnished, by a governmental entity or
 25 an exempt organization for use by itself are to be treated

1 as sold in a business activity if such treatment is necessary
 2 to carry out the purposes of this chapter. In any such case
 3 the taxable value added shall be determined by reference
 4 to the fair market value of the property or services.

5 **“SEC. 10023. POST-SALE PRICE ADJUSTMENTS AND RE-**
 6 **FUNDS; BAD DEBTS.**

7 “(a) PRICE ADJUSTMENTS AND REFUNDS.—

8 “(1) RECEIPT TREATED AS REDUCTION IN
 9 BUSINESS PURCHASES.—If a person subject to tax
 10 under this chapter receives a post-sale price adjust-
 11 ment attributable to a business purchase which was
 12 taken into account in computing the taxable value
 13 added for a prior taxable period, then the amount of
 14 such adjustment shall be treated as a reduction in
 15 business purchases for the taxable period in which it
 16 is received.

17 “(2) ISSUANCE TREATED AS REDUCTION IN
 18 GROSS RECEIPTS.—If a person subject to tax under
 19 this chapter issues a post-sale price adjustment for
 20 a sale the gross receipts from which were taken into
 21 account in computing the taxable value added for a
 22 prior taxable period, then the amount of such ad-
 23 justment shall be treated as a reduction in gross re-
 24 ceipts for the taxable period in which it is issued.

1 “(3) POST-SALE PRICE ADJUSTMENT.—For
2 purposes of this subsection, the term ‘post-sale price
3 adjustment’ means a refund, rebate, or other price
4 allowance attributable to a sale of property or serv-
5 ices.

6 “(b) BAD DEBTS.—

7 “(1) SELLER.—

8 “(A) WRITEOFFS AND WRITEDOWNS.—If
9 an amount owed to a seller of business property
10 or services that was taken into account as gross
11 receipts in computing the taxable value added
12 of the seller for a prior taxable period becomes
13 wholly or partially uncollectible during any sub-
14 sequent taxable period, then the seller shall
15 treat the amount (or part thereof that is
16 uncollectible) as a reduction in gross receipts
17 for the taxable period in which it becomes whol-
18 ly or partially uncollectible.

19 “(B) NOTICE.—Whenever a seller treats
20 an amount as wholly or partially uncollectible
21 under subparagraph (A), the seller shall notify
22 the purchaser of the amount the seller is treat-
23 ing as uncollectible. The notice shall set forth
24 with specificity the purchase or purchases to
25 which the treatment relates and shall be sent to

1 the purchaser at the purchaser's last known ad-
2 dress within 10 days after close of the taxable
3 period in which the seller treats the amount as
4 wholly or partially uncollectible.

5 “(C) RECOVERIES.—If a seller receives
6 payment for an amount that was treated as a
7 reduction in gross receipts under subparagraph
8 (A) in a prior taxable period, then the seller
9 shall treat the payment as a gross receipt for
10 the taxable period in which it is received.

11 “(2) PURCHASER.—

12 “(A) WRITEOFFS AND WRITEDOWNS.—If a
13 purchaser receives notice under paragraph
14 (1)(B) from a seller for all or a portion of the
15 amount owed for business property or services
16 that the purchaser treated as a business pur-
17 chase in a prior taxable period, then the pur-
18 chaser shall treat such amount as a reduction
19 in business purchases for the taxable period in
20 which the notice is received.

21 “(B) REPAYMENTS.—If a purchaser pays
22 all or part of an amount treated as a reduction
23 in business purchases under subparagraph (A)
24 in a prior taxable period, then the purchaser
25 shall treat the amount paid as a business pur-

1 chase for the taxable period in which the pay-
2 ment is made.

3 **“SEC. 10024. SOURCE RULES.**

4 “(a) SALES OF PROPERTY.—For purposes of this
5 chapter, a sale of property shall be treated as occurring
6 in the United States if the property is located in the
7 United States at the time of the sale.

8 “(b) RIGHT TO USE PROPERTY.—For purposes of
9 this chapter, the grant of a right to use property shall
10 be treated as occurring in the United States to the extent
11 such right involves the use of such property in the United
12 States.

13 “(c) SALES OF SERVICES.—

14 “(1) GENERAL RULE.—For purposes of this
15 chapter, a sale of services shall be treated as occur-
16 ring in the United States to the extent that—

17 “(A) the services are provided from a place
18 of business, or with respect to property, in the
19 United States, or

20 “(B) the services are incidental to the pro-
21 vision of services within the United States.

1 “(2) CROSS REFERENCE.—

“For treatment of international transportation services, see section 10031.

2 **“SEC. 10025. CONVERSIONS.**

3 For purposes of this chapter, any conversion of prop-
 4 erty or services from use in a business activity to use in
 5 any other activity, or from use in any other activity to
 6 use in a business activity, shall be treated as a sale of
 7 the property or services for their fair market value.

8 **“Subchapter D—Special Rules**

“Sec. 10031. International transportation services.

“Sec. 10032. Financial intermediation services.

“Sec. 10033. Nonbusiness imports of property or services.

“Sec. 10034. Refund for certain nonbusiness purchases.

9 **“SEC. 10031. INTERNATIONAL TRANSPORTATION SERVICES.**

10 “(a) EXPORTS.—For purposes of this chapter, in the
 11 case of property exported from the United States—

12 “(1) GROSS RECEIPTS.—The term ‘gross re-
 13 ceipts’ does not include receipts from transportation
 14 of such property from the United States.

15 “(2) BUSINESS PURCHASES.—The term ‘busi-
 16 ness purchase’ does not include amounts paid or in-
 17 curred for transportation of such property from the
 18 United States.

19 “(b) INTERNATIONAL TRANSPORTATION OF PAS-
 20 SENGERS.—For purposes of this chapter—

21 “(1) GROSS RECEIPTS.—Gross receipts—

1 “(A) do not include receipts from the
2 transportation of passengers from outside the
3 United States to a destination in the United
4 States, but

5 “(B) include receipts from the transpor-
6 tation of passengers from the United States to
7 a destination outside the United States.

8 “(2) BUSINESS PURCHASES.—Business pur-
9 chases—

10 “(A) do not include amounts paid or in-
11 curred in a business activity for the transpor-
12 tation of passengers from outside the United
13 States to a destination in the United States,
14 but

15 “(B) include amounts paid or incurred in
16 a business activity for the transportation of
17 passengers from the United States to a destina-
18 tion outside the United States.

19 **“SEC. 10032. FINANCIAL INTERMEDIATION SERVICES.**

20 “(a) GENERAL RULE.—For purposes of this chap-
21 ter—

22 “(1) the providing of financial intermediation
23 services shall be treated as a business activity, and

24 “(2) this chapter shall be applied to such busi-
25 ness activity by substituting financial receipts and

1 adjusted business purchases properly allocable to
2 such business activity for gross receipts and business
3 purchases.

4 “(b) FINANCIAL RECEIPTS.—For purposes of this
5 section, the term ‘financial receipts’ means all receipts
6 other than amounts received as contributions to capital.

7 “(c) ADJUSTED BUSINESS PURCHASES.—For pur-
8 poses of this section, the term ‘adjusted business pur-
9 chases’ means business purchases, adjusted as follows:

10 “(1) PRINCIPAL AND INTEREST.—Business
11 purchases include any principal or interest payments
12 properly allocable to the business activity described
13 in subsection (a).

14 “(2) FINANCIAL INSTRUMENTS.—Notwithstand-
15 ing any other provision of this chapter, business pur-
16 chases include the cost of, and payments under, fi-
17 nancial instruments (other than financial instru-
18 ments representing equity interests in the person
19 subject to the tax imposed by this chapter).

20 “(3) INSURANCE CLAIMS.—Business purchases
21 include claims and cash surrender values paid in
22 connection with insurance or reinsurance services.

23 “(4) REINSURANCE.—Business purchases in-
24 clude amounts paid for reinsurance.

25 “(d) REPORTING TO CUSTOMERS.—

1 “(1) ALLOCATION AND REPORTING.—

2 “(A) IN GENERAL.—A person engaged in
3 the business activity of providing financial
4 intermediation services shall—

5 “(i) allocate fees received for such
6 services (other than services for which sep-
7 arately stated fees are charged) among re-
8 cipients of such services on a reasonable
9 and consistent basis, and

10 “(ii) report to each recipient the fees
11 so allocated.

12 “(B) TIMING.—The report under subpara-
13 graph (A)(ii) shall be furnished to the recipient
14 no later than the 45th day after the close of a
15 taxable period.

16 “(2) EXCEPTION.—The Secretary shall estab-
17 lish procedures under which notice need not be given
18 under this subsection to persons with respect to
19 whom services are not provided in connection with a
20 business activity.

21 “(e) DEFINITIONS.—For purposes of this section—

22 “(1) FINANCIAL INTERMEDIATION SERVICE.—
23 The term ‘financial intermediation service’ means—

24 “(A) lending services,

25 “(B) insurance services,

1 “(C) market-making and dealer services,
2 and

3 “(D) any other service provided as a busi-
4 ness activity in which a person acts as an
5 intermediary in—

6 “(i) the transfer of property, services,
7 or financial assets, liabilities, risks, or in-
8 struments (or income or expense derived
9 therefrom) between two or more other per-
10 sons, or

11 “(ii) the pooling of economic risk
12 among other persons,
13 and derives all or a portion of such person’s
14 gross receipts from streams of income or ex-
15 pense, discounts, or other financial flows associ-
16 ated with the matter with respect to which such
17 person is acting as an intermediary.

18 “(2) LENDING SERVICES.—The term ‘lending
19 services’ means the regular making of loans and pro-
20 viding credit to, or taking deposits from, customers,
21 but does not include an installment or delayed pay-
22 ment arrangement provided by a seller of property
23 or services under which additional charges or fees
24 are imposed by the seller for late payment and for
25 which no interest is charged.

1 “(3) MARKET-MAKING OR DEALER SERVICES.—

2 The term ‘market-making or dealer services’ means
3 services provided by a person who—

4 “(A) regularly purchases financial instru-
5 ments from or sells financial instruments to
6 customers in the ordinary course of a trade or
7 business, or

8 “(B) regularly offers to enter into, assume,
9 offset, assign, or otherwise terminate positions
10 in financial instruments with customers in the
11 ordinary course of a trade or business.

12 **“SEC. 10033. NONBUSINESS IMPORTS OF PROPERTY OR**
13 **SERVICES.**

14 “(a) IMPOSITION OF TAX.—There is hereby imposed
15 on the taxable nonbusiness import of any property or serv-
16 ices a tax equal to 20 percent of the sum of—

17 “(1) the amount paid or incurred for the prop-
18 erty or services, plus

19 “(2) in the case of property, any amounts paid
20 or incurred for transportation costs (if such costs
21 are not included in the amount paid for the prop-
22 erty).

23 “(b) TAXABLE NONBUSINESS IMPORT.—For pur-
24 poses of subsection (a), the term ‘taxable nonbusiness im-

1 port’ means any import of any property or services for
 2 use or consumption within the United States unless—

3 “(1) such property or services is imported for
 4 use or sale in a business activity of the importer, or

5 “(2) such property is imported free of duty
 6 under chapter 98 of the Harmonized Tariff Schedule
 7 of the United States.

8 **“SEC. 10034. REFUND FOR CERTAIN NONBUSINESS PUR-**
 9 **CHASES.**

10 “(a) REFUND ALLOWED.—If the tax imposed by sec-
 11 tion 10001 was paid on any qualified nonbusiness pur-
 12 chase, the Secretary shall pay (without interest) to the
 13 purchaser an amount equal to such tax.

14 “(b) QUALIFIED NONBUSINESS PURCHASE.—For
 15 purposes of this section, the term ‘qualified nonbusiness
 16 purchase’ means any purchase of property or services if—

17 “(1) such purchase is not in connection with a
 18 business,

19 “(2) the purchaser establishes to the satisfac-
 20 tion of the Secretary that substantially all of the use
 21 of such property or services is outside the United
 22 States, and

23 “(3) the amount of the tax imposed by section
 24 10001 on such purchase is separately stated.

1 “(c) PERIOD FOR FILING CLAIMS.—No claim shall
 2 be allowed under this section with respect to any purchase
 3 unless filed by the purchaser not later than 180 days after
 4 the date of such purchase.

5 **“Subchapter E—Small Business Exemption**

“Sec. 10041. Small business exemption.

6 **“SEC. 10041. SMALL BUSINESS EXEMPTION.**

7 “(a) EXEMPTION.—Except as provided in subsection
 8 (b), if the aggregate amount of gross receipts of any per-
 9 son for any taxable period and the 3 preceding taxable
 10 periods does not exceed the exemption amount, no tax
 11 shall be imposed under section 10001 (and no credit or
 12 refund shall be allowed under section 10011) for the tax-
 13 able period.

14 “(b) EXCEPTIONS.—

15 “(1) PERSON MUST ALWAYS BE EXEMPT.—Sub-
 16 section (a) shall not apply to any person for a tax-
 17 able period unless the person was exempt from the
 18 tax imposed by section 10001 for all preceding tax-
 19 able periods.

20 “(2) ELECTION.—Subsection (a) shall not apply
 21 to any person for a taxable period if the person
 22 elects not to have subsection (a) apply for the tax-
 23 able period.

1 “(c) STATEMENTS.—A person to which this section
2 applies for any taxable period shall file a statement con-
3 taining such information as the Secretary may prescribe.

4 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
5 poses of this section—

6 “(1) EXEMPTION AMOUNT.—The term ‘exemp-
7 tion amount’ means \$12,000 (or an equivalent
8 amount if the taxable period is not a calendar quar-
9 ter).

10 “(2) PERSONS NOT ENGAGED IN BUSINESS FOR
11 ENTIRE PERIOD.—If a person was not engaged in a
12 business activity for the entire period referred to in
13 subsection (a), such subsection shall be applied on
14 the basis of the period the person was so engaged.

15 “(3) PREDECESSORS.—Any reference in this
16 section to a person shall include a reference to any
17 predecessor of the person.

18 **“Subchapter F—Definitions**

“Sec. 10051. Definitions.

19 **“SEC. 10051. DEFINITIONS.**

20 “For purposes of this chapter—

21 “(1) SALE OF SERVICES.—The term ‘sale of
22 services’ means the performance of services for con-
23 sideration, and includes the granting of a right to
24 the performance of services or to reimbursement (in-

1 including the granting of warranties, insurance, and
2 similar items) for consideration.

3 “(2) GRANT OF RIGHT TO USE PROPERTY.—
4 The term ‘grant of a right to use property’ means
5 the granting of a right to use property for consider-
6 ation.

7 “(3) SALE OF PROPERTY.—The term ‘sale of
8 property’ means the transfer of ownership of prop-
9 erty from a seller to a purchaser for consideration.

10 “(4) PROPERTY.—The term ‘property’ means
11 any tangible or intangible property.

12 “(5) BUSINESS.—The term ‘business’ includes
13 any activity carried on continuously or regularly,
14 whether or not for profit, that involves or is intended
15 to involve the sale of property, the grant of a right
16 to use property, or the sale of services.

17 “(6) BUSINESS PROPERTY OR SERVICE.—The
18 term ‘business property or service’ means any prop-
19 erty or service the sale of which by the owner or pro-
20 vider thereof would be a business activity or which
21 is used by the owner or provider in a business activ-
22 ity.

23 “(7) EMPLOYEE.—The term ‘employee’ has the
24 same meaning as when such term is used for pur-
25 poses of chapter 24 (relating to withholding).

1 “(8) PERSON.—The term ‘person’ has the
2 meaning given such term by section 7701(a)(1), but
3 also includes any governmental entity.

4 “(9) UNITED STATES.—The term ‘United
5 States’, when used in a geographic sense, includes
6 the customs territory of the United States (as de-
7 fined in General Headnote 2 of the Harmonized
8 Tariff Schedules of the United States) and any area
9 seaward of the States lying within the outer bound-
10 aries of the outer continental shelf (as defined in
11 section 1331 of title 43, United States Code).

12 “(10) GOVERNMENTAL ENTITY.—The term
13 ‘governmental entity’ means the United States, any
14 State or political subdivision thereof, the District of
15 Columbia, a Commonwealth or possession of the
16 United States, or any agency or instrumentality of
17 any of the foregoing.

18 “(11) EXEMPT ORGANIZATION.—The term ‘ex-
19 empt organization’ means any organization exempt
20 from taxation under chapter 1.

21 “(12) FINANCIAL INSTRUMENT DEFINED.—The
22 term ‘financial instrument’ means any—

23 “(A) share of stock in a corporation,

1 “(B) partnership or beneficial ownership
2 interest in a widely held or publicly traded part-
3 nership or trust,

4 “(C) note, bond, debenture, or other evi-
5 dence of indebtedness,

6 “(D) interest rate, currency, or equity no-
7 tional principal contract,

8 “(E) evidence of an interest in, or a deriv-
9 ative financial instrument in, any financial in-
10 strument described in subparagraph (A), (B),
11 (C), or (D), or any currency, including any op-
12 tion, forward contract, short position, and any
13 similar financial instrument in such a financial
14 instrument or currency, and

15 “(F) position which—

16 “(i) is not a financial instrument de-
17 scribed in subparagraph (A), (B), (C), (D),
18 or (E),

19 “(ii) is a hedge with respect to such
20 a financial instrument, and

21 “(iii) is clearly identified in the deal-
22 er’s records as being described in this sub-
23 paragraph before the close of the day on
24 which it was acquired or entered into (or

1 such other time as the Secretary may by
2 regulations prescribe).

3 “(13) USE INCLUDES HELD FOR USE.—Prop-
4 erty or services held for use by any person shall be
5 treated as used by that person.

6 “(14) EXCHANGES TREATED AS SALES.—An
7 exchange shall be treated as a sale.

8 **“Subchapter G—Administration**

“Sec. 10061. Liability for tax.

“Sec. 10062. Time for filing return; taxable period.

“Sec. 10063. Treatment of related businesses.

“Sec. 10064. Secretary to be notified of certain events.

“Sec. 10065. Regulations.

9 **“SEC. 10061. LIABILITY FOR TAX.**

10 “The person selling property, granting the right to
11 use property, or selling services shall be liable for the tax
12 imposed by section 10001.

13 **“SEC. 10062. TIME FOR FILING RETURN; TAXABLE PERIOD.**

14 “(a) FILING RETURN.—Before the 16th day of the
15 second calendar month beginning after the close of each
16 taxable period, each person subject to tax under this chap-
17 ter shall file a return of the tax imposed by section 10001
18 for such taxable period.

19 “(b) TAXABLE PERIOD.—For purposes of this chap-
20 ter—

21 “(1) IN GENERAL.—The term ‘taxable period’
22 means a calendar quarter, except that if a taxpayer
23 has a taxable year under chapter 1 other than the

1 calendar year, then such term means a quarter of
2 that taxable year.

3 “(2) OTHER PERIODS.—To the extent provided
4 in regulations, the term ‘taxable period’ includes a
5 period selected by a person other than a calendar
6 quarter.

7 “(3) AUTHORITY TO SHORTEN LENGTH OF TAX
8 PERIOD.—The Secretary may shorten the length of
9 a person’s taxable period under this subsection to
10 the extent the Secretary deems such action nec-
11 essary to protect the revenue.

12 **“SEC. 10063. TREATMENT OF RELATED BUSINESSES.**

13 “(a) GENERAL RULE.—For purposes of this chap-
14 ter—

15 “(1) AFFILIATED GROUPS AND BUSINESSES
16 UNDER COMMON CONTROL.—Except to the extent
17 otherwise provided in regulations—

18 “(A) an affiliated group of corporations (as
19 defined in section 1504(a) without regard to
20 paragraphs (2), (4), and (7) of section
21 1504(b)), or

22 “(B) two or more businesses (whether or
23 not incorporated) under common control within
24 the meaning of section 52(b) and the regula-
25 tions thereunder,

1 shall be treated as one person.

2 “(2) CONTROLLED GROUP.—A controlled group
3 of corporations, as defined in section 1563(a) (deter-
4 mined without regard to the second sentence of
5 paragraph (4) of such section and without regard to
6 section 1563(e)(3)(C)), may elect to be treated as
7 one person.

8 “(b) RELATED PARTY TRANSACTIONS.—For pur-
9 poses of this chapter, transactions in the United States
10 between corporations or other businesses that are treated,
11 or that may elect to be treated, as one person under sub-
12 section (a) shall not be taken into account in computing
13 the gross receipts or business purchases of any such cor-
14 poration or business.

15 **“SEC. 10064. SECRETARY TO BE NOTIFIED OF CERTAIN**
16 **EVENTS.**

17 “To the extent provided in regulations, each person
18 engaged in a business shall notify the Secretary (at such
19 time or times as may be prescribed by regulation) of—

20 “(1) any change in the form in which the busi-
21 ness is conducted, and

22 “(2) any other change that might affect—

23 “(A) the liability for the tax imposed by
24 section 10001,

1 “(B) the amount of such tax or any credit
2 against such tax, or

3 “(C) the administration of such tax in the
4 case of such person.

5 **“SEC. 10065. REGULATIONS.**

6 “The Secretary shall prescribe such regulations as
7 may be necessary to carry out the provisions of this chap-
8 ter.”

9 **SEC. 202. REFUND AUTHORITY.**

10 Section 6402 (relating to authority to make credits
11 or refunds) is amended by designating subsection (h) as
12 subsection (j) and by inserting after subsection (g) the fol-
13 lowing new subsection:

14 “(h) REPAYMENT OF VALUE ADDED TAX.—Within
15 45 days after the date on which a value added tax return
16 is filed pursuant to section 10062 showing an overpay-
17 ment, the Secretary shall make, to the extent the Sec-
18 retary deems practical, a limited examination of the return
19 to discover omissions and errors of computation, and shall
20 determine the amount of the overpayment, if any, for the
21 taxable period to which the return relates and refund the
22 amount of such overpayment to the person who filed the
23 return.”

1 **SEC. 203. DEDICATION OF PORTION OF VAT REVENUES TO**
 2 **SOCIAL SECURITY TRUST FUNDS.**

3 (a) IN GENERAL.—The Secretary of the Treasury
 4 shall deposit in each Social Security Trust Fund for peri-
 5 ods after 1997 that portion of the revenues from the tax
 6 imposed by chapter 100 of the Internal Revenue Code of
 7 1986 which is necessary to maintain each such Fund in
 8 the same position it would be in but for the amendments
 9 made by section 102 of this Act.

10 (b) SOCIAL SECURITY TRUST FUNDS.—For purposes
 11 of subsection (a), the Social Security Trust Funds are—

12 (1) the Federal Old-Age and Survivors Insur-
 13 ance Trust Fund established by section 201(a) of
 14 the Social Security Act,

15 (2) the Federal Disability Insurance Trust
 16 Fund established by section 201(b) of such Act, and

17 (3) the Federal Hospital Insurance Trust Fund
 18 established by section 1817(a) of such Act.

19 **TITLE III—BURDEN**
 20 **ADJUSTMENTS**

21 **SEC. 301. REBATE OF VALUE ADDED TAX TO LOW-INCOME**
 22 **INDIVIDUALS; BURDEN ASSESSMENT ON**
 23 **HIGH-INCOME INDIVIDUALS.**

24 (a) IN GENERAL.—Subtitle A is amended by adding
 25 at the end the following new chapter:

1 **“CHAPTER 7—VALUE ADDED TAX BURDEN**
 2 **ADJUSTMENTS**

“Subchapter A. Rebate to low-income individuals.

“Subchapter B. Burden assessment on high-income individuals.

3 **“Subchapter A—Rebate to Low-Income**
 4 **Individuals**

“Sec. 1601. Rebate to low-income individuals.

“Sec. 1602. Advance payment of rebate.

5 **“SEC. 1601. REBATE TO LOW-INCOME INDIVIDUALS.**

6 “(a) GENERAL RULE.—The Secretary shall, for each
 7 taxable year, pay to each eligible individual an amount
 8 equal to the VAT rebate for such year.

9 “(b) VAT REBATE.—For purposes of this section—

10 “(1) IN GENERAL.—The VAT rebate for any
 11 taxable year is an amount equal to the applicable
 12 percentage of so much of the adjusted net income of
 13 the eligible individual for such year as does not ex-
 14 ceed \$30,000.

15 “(2) APPLICABLE PERCENTAGE.—For purposes
 16 of paragraph (1), the applicable percentage is 20
 17 percent reduced (but not below zero) by $\frac{2}{3}$ of 1 per-
 18 centage point for each whole \$1,000 of the individ-
 19 ual’s adjusted net income.

20 “(3) ADJUSTED NET INCOME.—The term ‘ad-
 21 justed net income’ means the sum of—

22 “(A) the net income (as defined in section
 23 1611(c)) for the taxable year, plus

1 “(B) the value of specified Federal trans-
2 fer payments received during the taxable year.

3 “(4) SPECIFIED FEDERAL TRANSFER PAY-
4 MENTS.—The term ‘specified Federal transfer pay-
5 ments’ means—

6 “(A) aid provided under a State plan ap-
7 proved under part A of title IV of the Social
8 Security Act (relating to aid to families with de-
9 pendent children),

10 “(B) assistance provided under—

11 “(i) the food stamp program (as de-
12 fined in section 3(h) of the Food Stamp
13 Act of 1977), or

14 “(ii) the portion of the program under
15 sections 21 and 22 of such Act which pro-
16 vides food assistance, and

17 “(C) any other Federal assistance which
18 consists of money payments or script and which
19 is not adjusted for changes in the cost-of-living.

20 “(c) ELIGIBLE INDIVIDUAL.—For purposes of this
21 section, the term ‘eligible individual’ means any individual
22 if—

23 “(1) such individual is a citizen or resident of
24 the United States for the entire taxable year,

1 “(2) such individual’s principal place of abode
2 is in the United States for more than one-half of
3 such taxable year,

4 “(3) such individual is not a dependent of an-
5 other taxpayer for any taxable year beginning in the
6 same calendar year as such taxable year, and

7 “(4) such individual’s adjusted net income for
8 the taxable year does not exceed \$30,000.

9 “(d) AMOUNT OF REBATE TO BE DETERMINED
10 UNDER TABLES.—

11 “(1) IN GENERAL.—The amount of the rebate
12 allowed by this section shall be determined under ta-
13 bles prescribed by the Secretary.

14 “(2) REQUIREMENTS FOR TABLES.—The tables
15 prescribed under paragraph (1) shall reflect the pro-
16 visions of subsection (b) and shall have income
17 brackets of not greater than \$50 each.

18 “(e) MARRIED INDIVIDUALS MUST FILE JOINT
19 CLAIM.—In the case of an individual who is married
20 (within the meaning of section 7703), this section shall
21 apply only if a joint claim is filed by such individual and
22 such individual’s spouse, and such joint claim shows the
23 combined adjusted net incomes of such individual and
24 spouse.

1 “(f) COORDINATION WITH PERIODIC PAYMENTS OF
2 REBATE.—If any payment is made to the individual under
3 section 1602 during any calendar year or if periodic pay-
4 ments have been made to the individual under this section
5 during any calendar year, then such individual shall pay
6 to the Secretary an amount equal to the excess (if any)
7 of—

8 “(1) the aggregate amount of such payments,
9 over

10 “(2) the maximum amount which would be pay-
11 able to such individual under this section (for such
12 individual’s last taxable year beginning in such cal-
13 endar year) without regard to such payments and on
14 the basis of the actual adjusted net income of such
15 individual for such taxable year.

16 Any amount required to be paid under this subsection
17 shall be assessed and collected in the same manner as tax
18 imposed by chapter 1.

19 “(g) CLAIM REQUIRED TO BE FILED, ETC.—

20 “(1) IN GENERAL.—No payment shall be made
21 under this section unless claim therefor is filed with
22 the Secretary.

23 “(2) REBATE PAYABLE WITH FEDERAL TRANS-
24 FER PAYMENTS, ETC.—To the maximum extent
25 practical, the Secretary shall arrange for the pay-

1 ment of the rebate under this section to be made
2 with Federal transfer payments and payments of so-
3 cial security benefits.

4 **“SEC. 1602. ADVANCE PAYMENT OF REBATE.**

5 “(a) GENERAL RULE.—Except as otherwise provided
6 in this section, every employer making payment of wages
7 to an employee with respect to whom a VAT rebate eligi-
8 bility certificate is in effect shall, at the time of paying
9 such wages, make an additional payment to such employee
10 equal to such employee’s VAT rebate advance amount.

11 “(b) VAT REBATE ELIGIBILITY CERTIFICATE.—For
12 purposes of this title, a VAT rebate eligibility certificate
13 is a statement furnished by an employee to the employer
14 which—

15 “(1) certifies that the employee will be eligible
16 to receive payments under section 1601 for the tax-
17 able year,

18 “(2) certifies the employee’s estimate of his ad-
19 justed net income (as defined in section 1601(b)) for
20 the taxable year other than income from wages from
21 such employer, and

22 “(3) certifies—

23 “(A) that the employee does not have an-
24 other VAT rebate eligibility certificate in effect

1 for the calendar year with respect to the pay-
2 ment of wages by another employer, and

3 “(B) that the spouse of the employee does
4 not have a VAT rebate eligibility certificate in
5 effect.

6 For purposes of this section, a certificate shall be treated
7 as being in effect with respect to a spouse if such a certifi-
8 cate will be in effect on the first status determination date
9 following the date on which the employee furnishes the
10 statement in question.

11 “(c) VAT REBATE ADVANCE AMOUNT.—For pur-
12 poses of this title, the term ‘VAT rebate advance amount’
13 means, with respect to any payroll period, the amount de-
14 termined—

15 “(1) on the basis of the employee’s wages from
16 the employer for such period and the employee’s es-
17 timate under subsection (b)(2) of his adjusted net
18 income (as defined in section 1601(b)) for the tax-
19 able year other than from such wages, and

20 “(2) in accordance with tables prescribed by the
21 Secretary.

22 “(d) PAYMENTS TO BE TREATED AS PAYMENTS
23 VALUE ADDED TAX.—

1 “(1) IN GENERAL.—For purposes of this title,
2 payments made by an employer under subsection (a)
3 to his employees for any payroll period—

4 “(A) shall not be treated as the payment
5 of compensation, and

6 “(B) shall be treated as made out of
7 amounts of the taxes imposed for the payroll
8 period under chapter 100 (relating to value
9 added tax), as if the employer had paid to the
10 Secretary, on the day on which the wages are
11 paid to the employees, an amount equal to such
12 payments.

13 “(2) ADVANCE PAYMENTS EXCEED TAXES
14 DUE.—In the case of any employer, if for any pay-
15 roll period the aggregate amount of VAT rebate ad-
16 vance payments exceeds the sum of the amounts re-
17 ferred to in paragraph (1)(B), each such advance
18 payment shall be reduced by an amount which bears
19 the same ratio to such excess as such advance pay-
20 ment bears to the aggregate amount of all such ad-
21 vance payments.

22 “(3) EMPLOYER MAY MAKE FULL ADVANCE
23 PAYMENTS.—The Secretary shall prescribe regula-
24 tions under which an employer may elect (in lieu of
25 any application of paragraph (2))—

1 “(A) to pay in full all VAT rebate advance
2 amounts, and

3 “(B) to have additional amounts paid by
4 reason of this paragraph treated as the advance
5 payment of taxes imposed by this title.

6 “(e) FURNISHING AND TAKING EFFECT OF CERTIFI-
7 CATES.—Rules similar to the rules of section 3507(e) shall
8 apply for purposes of this section.

9 **“Subchapter B—Burden Assessment on High-**
10 **Income Individuals**

“Sec. 1611. Assessment on high-income individuals.

“Sec. 1612. Inclusion of undistributed income of certain corpora-
tions.

11 **“SEC. 1611. ASSESSMENT ON HIGH-INCOME INDIVIDUALS.**

12 “(a) GENERAL RULE.—Each assessable person
13 whose net income for the taxable year exceeds the thresh-
14 old amount shall pay an assessment for such year equal
15 to 17 percent of the excess (if any) of such income over
16 the threshold amount.

17 “(b) ASSESSABLE PERSON.—For purposes of this
18 subchapter, the term ‘assessable person’ means any indi-
19 vidual, estate, or trust other than a trust exempt from
20 taxation under chapter 1.

21 “(c) NET INCOME.—

22 “(1) IN GENERAL.—For purposes of this sec-
23 tion, the term ‘net income’ means adjusted gross in-

1 come determined with the modifications described in
2 the following paragraphs.

3 “(2) CERTAIN EXCLUSIONS DISREGARDED.—
4 Net income shall be determined without regard to—

5 “(A) sections 911, 931, and 933,

6 “(B) section 457, and

7 “(C) any exclusion from gross income for
8 any elective deferral (as defined in section
9 402(g)(3)).

10 “(3) CERTAIN AMOUNTS INCLUDED.—

11 “(A) TAX EXEMPT INTEREST.—Net in-
12 come shall be increased by the amount of inter-
13 est received or accrued by the taxpayer during
14 the taxable year which is exempt from tax.

15 “(B) NONQUALIFIED DEFERRED COM-
16 PENSATION.—Deferred compensation shall be
17 included in gross income for the 1st taxable
18 year in which there is no substantial risk of for-
19 feiture of the rights to such compensation
20 (within the meaning of section 457(f)(3)). The
21 preceding sentence shall not apply to any plan
22 or contract described in section 457(f)(2).

23 “(4) ESTATES AND TRUSTS.—The adjusted
24 gross income of an estate or trust shall be deter-
25 mined in accordance with section 67(e).

1 “(d) THRESHOLD AMOUNT.—For purposes of this
2 section—

3 “(1) IN GENERAL.—The term ‘threshold
4 amount’ means—

5 “(A) except as provided in subparagraph
6 (B), \$75,000, and

7 “(B) zero in the case of a taxpayer who—

8 “(i) is married as of the close of the
9 taxable year (within the meaning of section
10 7703) but does not file a joint return for
11 such year, and

12 “(ii) does not live apart from his
13 spouse at all times during the taxable year.

14 “(2) SPECIAL RULES FOR TRUSTS.—

15 “(A) IN GENERAL.—Except as otherwise
16 provided in this paragraph, the threshold
17 amount for any trust shall be zero.

18 “(B) EXCEPTION FOR CURRENT DISTRIBUTION TRUSTS.—Subparagraph (A) shall not
19 apply to any trust to which section 651 applies
20 for the taxable year.

21 “(C) BENEFICIARY MAY ALLOCATE
22 THRESHOLD.—Any beneficiary of a trust to
23 which subparagraph (A) applies may elect to al-
24 locate any portion of such beneficiary’s thresh-
25

1 old amount under paragraph (1) for any tax-
 2 able year to such trust. Such allocation shall
 3 apply for such trust's taxable year beginning in
 4 the taxable year from which made and shall re-
 5 duce the threshold amount otherwise available
 6 to such beneficiary.

7 “(d) ASSESSMENT COLLECTED AS TAX.—For pur-
 8 poses of subtitle F, the assessment imposed by this section
 9 shall be treated as if it were a tax imposed by chapter
 10 1.

11 **“SEC. 1612. INCLUSION OF UNDISTRIBUTED INCOME OF**
 12 **CERTAIN CORPORATIONS.**

13 “(a) GENERAL RULE.—Each assessable person who
 14 owns (within the meaning of section 542(a)) stock in a
 15 corporation on the last day in the taxable year of such
 16 corporation on which such corporation was an applicable
 17 corporation shall include in gross income (for such per-
 18 son's taxable year in which or with which such taxable
 19 year of the corporation ends) as a dividend the amount
 20 such person would have received as a dividend if on such
 21 last day such corporation had distributed pro rata to its
 22 shareholders an amount which bears the same ratio to the
 23 undistributed income of the corporation for the taxable
 24 year as the portion of such taxable year during which such

1 corporation is an applicable corporation bears to the entire
2 taxable year.

3 “(b) APPLICABLE CORPORATION.—For purposes of
4 this section—

5 “(1) IN GENERAL.—The term ‘applicable cor-
6 poration’ means—

7 “(A) any corporation engaged in a service-
8 related business in which a shareholder per-
9 forms substantial services, and

10 “(B) any closely held C corporation.

11 Such term shall not include any corporation exempt
12 from taxation under chapter 1.

13 “(2) SERVICE-RELATED BUSINESS.—The term
14 ‘service-related business’ means any trade or busi-
15 ness described in subparagraph (A) of section
16 1202(e)(3).

17 “(3) CLOSELY HELD C CORPORATION.—The
18 term ‘closely held C corporation’ means any C cor-
19 poration if, at any time during the last half of the
20 taxable year, more than 50 percent in value of its
21 outstanding stock is owned, directly or indirectly
22 through the application of section 544, by or for not
23 more than 10 individuals.

24 “(c) UNDISTRIBUTED INCOME.—For purposes of this
25 section—

1 “(1) IN GENERAL.—The term ‘undistributed in-
2 come’ means the net income of the corporation for
3 the taxable year reduced any distributions by the
4 corporation to its shareholders with respect to its
5 stock—

6 “(A) which are made during the taxable
7 year and not taken into account under subpara-
8 graph (B) for the preceding taxable year, or

9 “(B) which—

10 “(i) are made after the close of the
11 taxable year and on or before the 45th day
12 following the close of the taxable year, and

13 “(ii) are designated, at such time and
14 in such manner as the Secretary may pre-
15 scribe, as distributions for purposes of this
16 paragraph.

17 Any distribution described in subparagraph (B) shall
18 be included in the gross income of the shareholder
19 for the shareholder’s taxable year which includes the
20 last day of the taxable year of the corporation for
21 which the reduction under this paragraph was made.

22 “(2) NET INCOME.—Net income shall be deter-
23 mined in the same way as taxable income under
24 chapter 1 as in effect on the day before the date of
25 the enactment of this section.

1 “(d) CERTAIN RULES TO APPLY.—Rules similar to
2 the rules of subsections (d) and (e) of section 551 shall
3 apply with respect to amounts required to be included in
4 gross income under this section.”

5 (b) CLERICAL AMENDMENT.—The table of chapters
6 for subtitle A is amended adding at the end the following
7 new item:

“Chapter 7. Value added tax burden adjustments.”

8 (c) EFFECTIVE DATE.—The amendments made by
9 this section shall apply to taxable years beginning after
10 December 31, 1997.

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